

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Village of Galien	County Berrien
Fiscal Year End 2/28/07	Opinion Date 8/10/07	Date Audit Report Submitted to State 8/14/07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

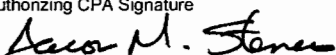
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	N/A	
Certified Public Accountant (Firm Name) Abraham & Gaffney, P.C.		Telephone Number (517) 351-6836	
Street Address 3511 Coolidge Rd, Suite 100		City East Lansing	State MI
Zip 48823			
Authorizing CPA Signature 	Printed Name Aaron M. Stevens	License Number 1101024055	

**Village of Galien
Berrien County, Michigan**

FINANCIAL STATEMENTS

February 28, 2007

Village of Galien
Berrien County, Michigan

February 28, 2007

VILLAGE OFFICERS AND TRUSTEES

Clarence Marsh	President
Betty Hoag	Treasurer
Christine Palmer	Clerk
Juanita Swank	President Pro Tem
Paul Palmer	Trustee
Mary Leazenby	Trustee
Robert White	Trustee
Tim Kriel	Trustee

Village of Galien

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Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

To the Honorable President and
Members of the Village Council
Village of Galien
Galien, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Galien, Michigan as of and for the year ended February 28, 2007, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Village of Galien's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Galien, Michigan as of February 28, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The budgetary comparison information as identified in the table of contents is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Village has not presented a management's discussion and analysis (MD&A), which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that the MD&A is necessary to supplement, although not required to be part of the basic financial statements.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

August 10, 2007

BASIC FINANCIAL STATEMENTS

Village of Galien

STATEMENT OF NET ASSETS

February 28, 2007

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current			
Cash	\$ 373,435	\$ 45,102	\$ 418,537
Cash - restricted	-	64,053	64,053
Investments	150,000	46,000	196,000
Investments - restricted	-	163,223	163,223
Receivables	31,006	24,771	55,777
Internal balances	12,805	(12,805)	-0-
Prepays	5,568	1,225	6,793
Due from other governmental units	15,855	-	15,855
Total current assets	588,669	331,569	920,238
Noncurrent			
Investments	-	25,000	25,000
Investments - restricted	-	27,000	27,000
Capital assets not being depreciated	313,213	20,000	333,213
Capital assets, net of accumulated depreciation	75,183	452,789	527,972
Total noncurrent assets	388,396	524,789	913,185
TOTAL ASSETS	977,065	856,358	1,833,423
LIABILITIES			
Current			
Accounts payable	21,799	180	21,979
Accrued liabilities	5,387	-	5,387
TOTAL LIABILITIES	27,186	180	27,366
NET ASSETS			
Invested in capital assets	388,396	472,789	861,185
Restricted for streets	226,655	-	226,655
Unrestricted	334,828	383,389	718,217
TOTAL NET ASSETS	\$ 949,879	\$ 856,178	\$ 1,806,057

See accompanying notes to financial statements.

Village of Galien

STATEMENT OF ACTIVITIES

Year Ended February 28, 2007

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities							
General government	\$ 90,721	\$ 10,857	\$ -	\$ -	\$ (79,864)	\$ -	\$ (79,864)
Public safety	20,362	941	-	-	(19,421)	-	(19,421)
Public works	144,691	7,775	53,398	199,868	116,350	-	116,350
Community and economic development	2,957	2,143	-	-	(814)	-	(814)
Recreation and cultural	3,647	3,588	175	-	116	-	116
Total governmental activities	262,378	25,304	53,573	199,868	16,367	-0-	16,367
Business-type activities:							
Sewer system	107,729	85,393	-	-	-	(22,336)	(22,336)
Total primary government	<u>\$ 370,107</u>	<u>\$ 110,697</u>	<u>\$ 53,573</u>	<u>\$ 199,868</u>	16,367	(22,336)	(5,969)
General revenues:							
Property taxes					81,517	-	81,517
State shared revenue					54,375	-	54,375
Investment earnings					27,433	14,564	41,997
Miscellaneous					4,482	1,838	6,320
Total general revenues					167,807	16,402	184,209
Change in net assets					184,174	(5,934)	178,240
Restated net assets, beginning of the year					765,705	862,112	1,627,817
Net assets, end of the year					<u>\$ 949,879</u>	<u>\$ 856,178</u>	<u>\$ 1,806,057</u>

See accompanying notes to financial statements.

Village of Galien

GOVERNMENTAL FUNDS BALANCE SHEET

February 28, 2007

	General	Major Street	Local Street
ASSETS			
Cash	\$ 59,871	\$ 118,959	\$ 134,343
Investments	-	-	-
Receivables			
Accounts	-	-	-
Notes	-	-	-
Taxes	9,783	-	-
Prepays	4,667	-	-
Due from other funds	45,630	-	-
Due from other governmental units	6,863	6,482	2,510
TOTAL ASSETS	<u>\$ 126,814</u>	<u>\$ 125,441</u>	<u>\$ 136,853</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 4,734	\$ 1,754	\$ 13,420
Other accrued liabilities	5,387	-	-
Deferred revenue	-	-	-
Due to other funds	5,262	13,323	7,142
TOTAL LIABILITIES	15,383	15,077	20,562
FUND BALANCES			
Reserved for prepaids	4,667	-	-
Unreserved			
Designated for subsequent year's expenditures	-	-	42,780
Undesignated, reported in:			
General Fund	106,764	-	-
Special Revenue funds	-	110,364	73,511
TOTAL FUND BALANCES	<u>111,431</u>	<u>110,364</u>	<u>116,291</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 126,814</u>	<u>\$ 125,441</u>	<u>\$ 136,853</u>

See accompanying notes to financial statements.

Police	Economic Development	Nonmajor Governmental Fund	Total Governmental Funds
\$ 34,248	\$ 5,398	\$ 20,616	\$ 373,435
-	150,000	-	150,000
-	225	-	225
-	20,998	-	20,998
-	-	-	9,783
901	-	-	5,568
-	-	5,262	50,892
-	-	-	15,855
<u>\$ 35,149</u>	<u>\$ 176,621</u>	<u>\$ 25,878</u>	<u>\$ 626,756</u>
\$ 939	\$ 838	\$ 114	\$ 21,799
-	-	-	5,387
-	21,223	-	21,223
10,902	1,280	178	38,087
11,841	23,341	292	86,496
901	-	-	5,568
21,540	-	1,995	66,315
-	-	-	106,764
867	153,280	23,591	361,613
23,308	153,280	25,586	540,260
<u>\$ 35,149</u>	<u>\$ 176,621</u>	<u>\$ 25,878</u>	<u>\$ 626,756</u>

Village of Galien

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

February 28, 2007

Total fund balance - governmental funds \$ 540,260

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 510,391	
Accumulated depreciation is	<u>(121,995)</u>	
Capital assets, net		388,396

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	<u>21,223</u>
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Net assets of governmental activities \$ 949,879

See accompanying notes to financial statements.

Village of Galien

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended February 28, 2007

	General	Major Street	Local Street
REVENUES			
Taxes	\$ 81,517	\$ -	\$ -
Licenses and permits	1,643	-	-
Intergovernmental	56,664	35,907	213,765
Interest and rents	21,682	4,426	5,896
Other	1,861	-	2,539
TOTAL REVENUES	163,367	40,333	222,200
EXPENDITURES			
General government	46,754	-	-
Public safety	445	-	-
Public works	68,246	20,352	340,419
Community and economic development	-	-	-
Recreation and cultural	-	-	-
Other	43,135	-	-
TOTAL EXPENDITURES	158,580	20,352	340,419
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	4,787	19,981	(118,219)
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	138,907
Transfers out	(37,907)	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(37,907)	-0-	138,907
NET CHANGE IN FUND BALANCES	(33,120)	19,981	20,688
Fund balances, beginning of year	144,551	90,383	95,603
Fund balances, end of year	\$ 111,431	\$ 110,364	\$ 116,291

See accompanying notes to financial statements.

Police	Economic Development	Nonmajor Governmental Fund	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 81,517
707	-	-	2,350
-	-	-	306,336
2,047	11,766	4,334	50,151
235	-	258	4,893
2,989	11,766	4,592	445,247
-	-	-	46,754
19,150	-	-	19,595
-	-	-	429,017
-	2,957	-	2,957
-	-	3,647	3,647
-	-	-	43,135
19,150	2,957	3,647	545,105
(16,161)	8,809	945	(99,858)
21,000	-	3,000	162,907
-	(125,000)	-	(162,907)
21,000	(125,000)	3,000	-0-
4,839	(116,191)	3,945	(99,858)
18,469	269,471	21,641	640,118
\$ 23,308	\$ 153,280	\$ 25,586	\$ 540,260

Village of Galien

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended February 28, 2007

Net change in fund balances - total governmental funds \$ (99,858)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 304,833
Depreciation expense	<u>(12,744)</u>

Excess of capital outlay over depreciation expense	292,089
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Net effect of disposal of capital assets	(9,362)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. The change in deferred revenue for the current period is:

<u>1,305</u>

Change in net assets of governmental activities	<u><u>\$ 184,174</u></u>
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See accompanying notes to financial statements.

Village of Galien

Proprietary Fund

STATEMENT OF NET ASSETS

February 28, 2007

	Business-type Activities <u>Sewer System</u>
ASSETS	
Current assets	
Cash	\$ 45,102
Cash - restricted	64,053
Investments	46,000
Investments - restricted	163,223
Receivables	
Accounts, net of allowance for doubtful accounts	24,281
Accrued interest	490
Prepays	1,225
Due from other funds	<u>382</u>
Total current assets	344,756
Noncurrent assets	
Investments	25,000
Investments - restricted	27,000
Capital assets not being depreciated	20,000
Capital assets, net	<u>452,789</u>
Total noncurrent assets	<u>524,789</u>
TOTAL ASSETS	869,545
LIABILITIES	
Current liabilities	
Accounts payable	180
Due to other funds	<u>13,187</u>
TOTAL LIABILITIES	<u>13,367</u>
NET ASSETS	
Invested in capital assets	472,789
Unrestricted	<u>383,389</u>
TOTAL NET ASSETS	<u>\$ 856,178</u>

See accompanying notes to financial statements.

Village of Galien

Proprietary Fund

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

Year Ended February 28, 2007

	Business-type Activities <u>Sewer System</u>
OPERATING REVENUES	
Charges for services	
Usage fees	\$ 69,817
Equipment rental	15,576
Other	<u>1,838</u>
TOTAL OPERATING REVENUES	87,231
OPERATING EXPENSES	
Salaries and wages	35,402
Fringe benefits	16,864
Utilities	1,740
Insurance	2,081
Repairs and maintenance	3,450
Equipment rental	2,947
Contracted services	4,757
Supplies	939
Other	2,247
Depreciation	<u>37,302</u>
TOTAL OPERATING EXPENSES	<u>107,729</u>
OPERATING (LOSS)	(20,498)
NON-OPERATING REVENUES	
Interest revenue	<u>14,564</u>
CHANGE IN NET ASSETS	(5,934)
Restated net assets, beginning of year	<u>862,112</u>
Net assets, end of year	<u><u>\$ 856,178</u></u>

See accompanying notes to financial statements.

Village of Galien

Proprietary Fund

STATEMENT OF CASH FLOWS

Year Ended February 28, 2007

	Business-type Activities Sewer System
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash receipts from customers	\$ 60,510
Cash receipts from other funds	15,576
Cash paid to suppliers	(18,137)
Cash paid for employee benefits	(16,864)
Cash paid to employees	(31,351)
NET CASH PROVIDED BY OPERATING ACTIVITIES	9,734
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital acquisitions	(3,500)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of investments	(224,223)
Maturity of investments	223,571
Interest revenue	14,564
NET CASH PROVIDED BY INVESTING ACTIVITIES	13,912
NET INCREASE IN CASH DURING YEAR	20,146
Cash, beginning of year	89,009
Cash, end of year	<u>\$ 109,155</u>
Reconciliation of operating loss to net cash provided by operating activities	
Operating loss	\$ (20,498)
Adjustments to reconcile operating loss to net cash provided by operating activities	
Depreciation	37,302
(Increase) in receivables	(11,145)
(Increase) in prepaids	(19)
Increase in accounts payable	43
Increase in due to other funds	4,051
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 9,734

See accompanying notes to financial statements.

Village of Galien

NOTES TO FINANCIAL STATEMENTS

February 28, 2007

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Village of Galien is located in Berrien County, Michigan and has a population of approximately 593. The Village of Galien operates with a Village President/Council form of government and provides services to its residents in many areas including general government, highways and streets, and utilities services.

The Village Council is made up of the Village President, Clerk, Treasurer, and six (6) trustees who are selected at large for overlapping four-year terms.

The financial statements of the Village have been prepared in accordance with accounting principles generally accepted in the United States of America as applied to Village governments. The Governmental Accounting Standards Board is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The Village's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 39); and *Statement on Michigan Governmental Accounting and Auditing No. 5*; these financial statements present all financial activities of the Village of Galien (primary government). The Village has no activities that would be classified as component units.

The inclusion of the activities of various agencies is based on the manifestation of oversight criteria, relying on such guidelines as the selection of the governing authority, the designation of management, the ability to exert significant influence on operations, and the accountability for fiscal matters. The accountability for fiscal matters considers the possession of the budgetary authority, the responsibility for surplus or deficit, the controlling of fiscal management, and the revenue characteristics, whether a levy or a charge. Consideration is also given to the scope of public service. The scope of public service considers whether the activity is for the benefit of the reporting entity and/or its residents and is within the geographic boundaries of the reporting entity and generally available to its citizens.

Based upon the application of these criteria, the financial statements of the Village of Galien contain all the funds controlled by the Village Council.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the government as a whole. Interfund activity has been eliminated in the preparation of these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities presents the direct functional expenses of the primary government and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State revenue sharing payments and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

FUND FINANCIAL STATEMENTS

The fund financial statements present the Village's individual major funds. Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and the major enterprise fund are reported as separate columns in the fund financial statements.

NOTES TO FINANCIAL STATEMENTS

February 28, 2007

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

2. Basis of Presentation - continued

The major funds of the Village are:

- a. The General Fund is the Village's primary operating fund. It accounts for all financial resources of the general government except for those that are required to be accounted for in another fund.
- b. The Major Street Fund is used to account for the financial resources that are used for repairs and maintenance of the Village's major streets.
- c. The Local Street Fund is used to account for the financial resources that are used for repairs and maintenance of the Village's local streets.
- d. The Police Fund is used to account for the financial resources that are used to provide police services.
- e. The Economic Development Fund is used to account for the financial resources that are used for the development of the Village's industrial park.
- f. The Sewer System Fund is used to account for the operations required to provide sewer services to the general public, the costs (expenses, including depreciation) are financed or recovered primarily through user charges.

3. Measurement Focus

The government-wide and proprietary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

4. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues that are considered measurable but not available are recorded as a receivable and deferred revenue. Significant revenues susceptible to accrual are special assessments and certain intergovernmental revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

NOTES TO FINANCIAL STATEMENTS

February 28, 2007

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Basis of Accounting - continued

Private-sector standards of accounting and financial reporting issued to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Village has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Enterprise Funds are charges to customers for sales and services. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and other costs of running the activity. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. If/when both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

5. Budgets and Budgetary Accounting

The General and major Special Revenue Funds' budgets shown as required supplementary information to the financial statements were prepared on a basis consistent with the modified accrual basis used to reflect actual results. The Village employs the following procedures in establishing the budgetary data reflected in the required supplementary information.

- a. Prior to March 1, the Village Council prepares the proposed operating budgets for the fiscal year commencing March 1. The operating budget includes proposed expenditures and resources to finance them.
- b. A Public Hearing is conducted to obtain taxpayers' comments.
- c. Prior to March 1, the budgets are legally adopted with passage by Council vote.
- d. The budgets are legally adopted at the activity level and total expenditure level for the General Fund and Special Revenue funds, respectively; however, they are maintained at the account level for control purposes.
- e. After the budgets are adopted, all transfers of budgeted amounts between accounts within a fund or activity or any revisions that alter the total expenditures of a fund or activity must be approved by the Village Council.
- f. The Village does not employ encumbrance accounting as an extension of formal budgetary integration in the governmental funds. Appropriations unused at February 28, 2007 are not carried forward to the following fiscal year.
- g. Budgeted amounts are reported as originally adopted or as amended by the Village Council. The individual budgets were appropriately approved by the Village Council in accordance with required procedures.

6. Cash and Investments

Cash consists of various checking accounts.

Investments consist of certificates of deposit with an original maturity of greater than 90 days. All investments are stated at market value.

NOTES TO FINANCIAL STATEMENTS

February 28, 2007

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

7. Restricted Cash and Investments

A portion of the cash and investments of the Sewer System Fund is classified as restricted cash because their use is limited. The Sewer System Fund's cash restriction is to provide for sewer system improvements.

8. Receivables

Receivables consist of amounts due related to charges for services, loans receivable, and other amounts owed to the Village at year-end.

9. Property Taxes

The Village of Galien bills and collects its own property taxes. The Village's property tax revenue recognition policy and related tax calendar disclosures are highlighted in the following paragraph.

Property taxes are levied by the Village of Galien on July 1 and are payable without penalty through September 15. All real property taxes not paid to the Village by September 15 are turned over to the Berrien County Treasurer for collection. The Berrien County Treasurer remits payments to the Village on any delinquent real property taxes. Delinquent personal property taxes are retained by the Village for subsequent collection. Collections and remittances of all taxes are accounted for in the General Fund. Village property tax revenues are recognized as revenues in the fiscal year levied.

The Village is permitted to levy taxes up to 12.5 mills (\$12.50 per \$1,000 of assessed valuation) for general governmental services. For the year ended February 28, 2007, the Village levied 8.4099 mills for general governmental services. The total taxable value for the 2006 levy for property within the Village was \$9,564,439.

10. Interfund Transactions

During the course of normal operations, the Village has numerous transactions between funds, including expenditures and transfers of resources to provide services and construct assets. The accompanying financial statements generally reflect such transactions as transfers.

The General Fund, Park Fund, and Sewer Fund record charges for equipment rental to various Village departments and funds as revenue. All Village funds record these payments as operating expenditures/expenses.

11. Prepays

Prepaid expenditures in the governmental funds, such as insurance premiums, which are expected to be written off within the next fiscal year, are included in current assets. Reported prepaid expenditures are equally offset by a fund balance reserve which indicates they do not constitute "available spendable resources" even though they are a component of equity.

12. Capital Assets

Capital assets include land, buildings, equipment, vehicles, and the sewer system and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements. Capital assets are those with an estimated useful life of one year or greater. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

NOTES TO FINANCIAL STATEMENTS

February 28, 2007

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

12. Capital Assets - Continued

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Machinery and equipment	5 - 20 years
Vehicles	5 - 15 years
Buildings and improvements	20 - 40 years
Systems and mains	40 years

13. Comparative Data

Comparative data has not been presented in the accompanying financial statements since their inclusion would make the statements unduly complex and difficult to read.

NOTE B: CASH AND INVESTMENTS

In accordance with Michigan Compiled Laws, the Village is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 6 of 1855 PA 105, MCL 21.146..
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA105, MCL 21.143, to secure deposits of State surplus funds, securities, issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Village of Galien

NOTES TO FINANCIAL STATEMENTS

February 28, 2007

NOTE B: CASH AND INVESTMENTS - CONTINUED

Deposits

There is a custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Village's deposits may not be returned to it. As of February 28, 2007, the carrying amount of the Village's deposits was \$893,763 and the bank balance was \$901,513, of which \$300,000 was covered by federal depository insurance. The remaining balance of \$601,513 was uninsured and uncollateralized.

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of February 28, 2007, the Village did not have any investments that would be subject to rating.

Interest rate risk

The Village has not adopted a policy that indicates how the Village will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by limiting the weighted average maturity of its investment portfolio to less than a given period of time.

Concentration of credit risk

The Village has not adopted a policy that indicates how the Village will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Village's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

The cash and investments referred to above have been reported in either the cash or investments captions in the basic financial statements, based upon criteria disclosed in Note A. The following summarizes the categorization of these amounts as of February 28, 2007:

Cash	\$ 418,537
Cash - restricted	64,053
Investments - current	196,000
Investments - restricted, current	163,223
Investments - noncurrent	25,000
Investments - restricted, noncurrent	<u>27,000</u>
	<u>\$ 893,813</u>

The cash captions in the basic financial statements includes \$50 in petty cash.

NOTE C: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

Transfers to Local Street Fund from:	
Economic Development	\$ 125,000
General Fund	<u>13,907</u>
	<u>\$ 138,907</u>

Village of Galien

NOTES TO FINANCIAL STATEMENTS

February 28, 2007

NOTE C: INTERFUND TRANSFERS - CONTINUED

Transfers to Police Fund from:	
General Fund	\$ <u>21,000</u>
Transfers to nonmajor governmental funds from:	
General Fund	\$ <u>3,000</u>

NOTE D: INTERFUND RECEIVABLES AND PAYABLES

The following schedule details interfund receivables and payables at February 28, 2007:

Due to General Fund from:	
Major Street Fund	\$ 13,156
Local Street Fund	7,105
Police Fund	10,902
Economic Development Fund	1,280
Sewer System Fund	<u>13,187</u>
	\$ <u>45,630</u>
Due to Sewer System Fund from:	
Major Street Fund	\$ 167
Local Street Fund	37
Nonmajor governmental fund	<u>178</u>
	\$ <u>382</u>
Due to nonmajor governmental fund from:	
General Fund	\$ <u>5,262</u>

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

NOTE E: LONG-TERM CONTRACTS RECEIVABLE

The Village has a loan to a business made through the Economic Development Fund. The amounts attributable to this long-term contract receivable have been recorded in the Economic Development (Special Revenue) Fund as contracts receivable and deferred revenue. The following is a summary of future annual revenue from the debtor that currently has a signed promissory note with the Village:

<u>Years ending</u> <u>February 28/29</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 12,197	\$ 896	\$ 13,093
2009	4,048	540	4,588
2010	4,373	215	4,588
2011	<u>380</u>	<u>2</u>	<u>382</u>
	\$ <u>20,998</u>	\$ <u>1,653</u>	\$ <u>22,651</u>

Village of Galien

NOTES TO FINANCIAL STATEMENTS

February 28, 2007

NOTE F: CAPITAL ASSETS

Capital asset activity for the year ended February 28, 2007 was as follows:

	Balance March 1, 2006	Additions	Deletions	Balance Feb. 28, 2007
Governmental activities				
Capital assets not being depreciated				
Land	\$ 8,380	\$ -	\$ -	\$ 8,380
Construction in progress	<u>6,679</u>	<u>304,833</u>	<u>(6,679)</u>	<u>304,833</u>
Subtotal	15,059	304,833	(6,679)	313,213
Capital assets being depreciated				
Buildings and improvements	27,640	-	-	27,640
Machinery and equipment	74,540	-	(3,500)	71,040
Vehicles	<u>98,498</u>	<u>-</u>	<u>-</u>	<u>98,498</u>
Subtotal	200,678	-0-	(3,500)	197,178
Less accumulated depreciation				
Buildings and improvements	(14,373)	(832)	-	(15,205)
Machinery and equipment	(24,862)	(7,021)	817	(31,066)
Vehicles	<u>(70,833)</u>	<u>(4,891)</u>	<u>-</u>	<u>(75,724)</u>
Subtotal	<u>(110,068)</u>	<u>(12,744)</u>	<u>817</u>	<u>(121,995)</u>
Net capital assets being depreciated	<u>90,610</u>	<u>(12,744)</u>	<u>(2,683)</u>	<u>75,183</u>
Total net capital assets	<u>\$ 105,669</u>	<u>\$ 292,089</u>	<u>\$ (9,362)</u>	<u>\$ 388,396</u>

Depreciation expense was charged to the following governmental activities:

General government	\$ 832
Public safety	767
Public works	<u>11,145</u>
Total	<u>\$ 12,744</u>

	Restated Balance March 1, 2006	Additions	Deletions	Balance Feb. 28, 2007
Business-type activities				
Capital assets not being depreciated				
Land	\$ 20,000	\$ -	\$ -	\$ 20,000
Capital assets being depreciated				
Machinery and equipment	203,423	3,500	-	206,923
Sewer system	<u>1,233,254</u>	<u>-</u>	<u>-</u>	<u>1,233,254</u>
Subtotal	1,436,677	3,500	-0-	1,440,177

Village of Galien

NOTES TO FINANCIAL STATEMENTS

February 28, 2007

NOTE F: CAPITAL ASSETS - CONTINUED

	Restated Balance March 1, 2005	Additions	Deletions	Balance Feb. 28, 2006
Business-type activities - continued				
Less accumulated depreciation				
Machinery and equipment	\$(162,249)	\$(6,471)	\$ -	\$(168,720)
Sewer system	(787,837)	(30,831)	-	(818,668)
Subtotal	(950,086)	(37,302)	-0-	(987,388)
Net capital assets being depreciated	486,591	(33,802)	-0-	452,789
Capital assets, net	\$ 506,591	\$(33,802)	\$ -0-	\$ 472,789

NOTE G: RISK MANAGEMENT

The Village participates in a pool, the Michigan Municipal League Liability and Property Pool, with other municipalities for various risks of loss including liability, crime bond and oath, and property and casualty losses. The pool is organized under Public Act 138 of 1982, as amended as a governmental group property and casualty self insurance pool. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The Village has not been informed of any special assessments being required.

The Village also participates in a pool, the Michigan Municipal League Workers' Compensation Fund, with other municipalities for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The Village has not been informed of any special assessments being required.

NOTE H: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated.

In the budgetary comparison schedules, the Village's budgeted expenditures in the General and major Special Revenue Funds have been shown at the activity level. The approved budgets of the Village have been adopted at the activity level and the total expenditure level for the General and Special Revenue Funds, respectively.

During the year ended February 28, 2007, the Village incurred expenditures in the General Fund in excess of the amounts appropriated as follows:

	Amounts Appropriated	Amounts Expended	Variance
General Fund			
General government			
Clerk	\$ 10,800	\$ 11,087	\$ 287
Public works			
Highways, streets, and bridges	57,560	57,780	220
Streetlights	10,000	10,466	466

Village of Galien

NOTES TO FINANCIAL STATEMENTS

February 28, 2007

NOTE H: EXCESS OF EXPENDITURES OVER APPROPRIATIONS - CONTINUED

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund - Continued			
Other			
Payroll taxes and fringe benefits	\$ 17,100	\$ 17,703	\$ 603
Professional services	11,680	12,846	1,166

NOTE I: BUILDING AND ZONING FINANCIAL INFORMATION

The Village elected to report the financial activities of the building and zoning activity in the General Fund. The following is the required information as it relates to this activity for the year ended February 28, 2007.

REVENUES	
Building Permits	\$ 1,643
EXPENDITURES	
Contracted services	<u>445</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>\$ 1,198</u>

NOTE J: FUND EQUITY RESERVES AND DESIGNATIONS

Reserved fund balance is used to earmark a portion of fund equity to indicate that it is not appropriate for expenditures or has been legally segregated for a specific future use. Designated fund balance indicates that portion of fund balance that the Village has set aside for specific purposes.

The following are the various fund balance reserves as of February 28, 2007:

Governmental Funds	
General Fund	
Reserved for prepaids	<u>\$ 4,667</u>
Police Fund	
Reserved for prepaids	<u>\$ 901</u>

The following are the fund balance designations as of February 28, 2007:

Local Street Fund	
Designated for subsequent year's expenditures	<u>\$ 42,780</u>
Police Fund	
Designated for subsequent year's expenditures	<u>\$ 21,540</u>
Nonmajor governmental fund	
Designated for subsequent year's expenditures	<u>\$ 1,995</u>

Village of Galien

NOTES TO FINANCIAL STATEMENTS

February 28, 2007

NOTE K: RESTRICTED NET ASSETS

Restrictions of net assets shown in the government-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes. The following are the various net asset restrictions as of February 28, 2007:

PRIMARY GOVERNMENT	
Governmental activities	
Restricted for streets	<u>\$ 226,655</u>

NOTE L: SUBSEQUENT EVENTS

On June 11, 2007, the Village accepted a bid from Schucks Asphalt Paving for paving village roads. The amount bid for Major Streets was \$19,836 and the amount bid for Local Streets was \$33,235.

NOTE M: RESTATED NET ASSETS

The following restatement of net assets was made during the year, and was the result of a correction of an accounting error. These adjustments were reported as a change to beginning net assets. The effect on operations and other affected balances for the current and prior year are as follows:

	February 28,		
	<u>2007</u>	<u>2006</u>	<u>Description</u>
Business-type Activities			
Capital assets, net	\$ -	\$ 41,167	To correct understated
Change in net assets	-	41,167	capital assets, net of
Net assets - beginning	41,167	-	accumulated depreciation

NOTE N: CONTRACTUAL COMMITMENT

The Village has entered into various contracts related to the project to close the Grant Street Railroad that were not completed at February 28, 2007. The total contractual commitments outstanding at February 28, 2007 totaled \$45,632.

REQUIRED SUPPLEMENTARY INFORMATION

Village of Galien

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended February 28, 2007

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes	\$ 74,740	\$ 74,740	\$ 81,517	\$ 6,777
Licenses and permits	3,000	3,000	1,643	(1,357)
Intergovernmental	54,870	54,870	56,664	1,794
Interest and rents	27,400	26,800	21,682	(5,118)
Other	2,000	2,400	1,861	(539)
TOTAL REVENUES	162,010	161,810	163,367	1,557
EXPENDITURES				
General government				
Village council	7,200	9,600	7,995	1,605
President	4,800	5,200	4,893	307
Clerk	9,025	10,800	11,087	(287)
Treasurer	9,025	10,225	9,014	1,211
Hall and grounds	9,630	15,480	13,765	1,715
Total general government	39,680	51,305	46,754	4,551
Public safety				
Building inspections	3,450	3,450	-	3,450
Electrical inspections	450	450	445	5
Total public safety	3,900	3,900	445	3,455
Public works				
Highways, streets, and bridges	38,300	57,560	57,780	(220)
Drain	5,000	5,000	-	5,000
Streetlights	9,000	10,000	10,466	(466)
Total public works	52,300	72,560	68,246	4,314
Other				
Insurance	9,000	9,000	8,604	396
Professional services	3,200	11,680	12,846	(1,166)
Payroll taxes and fringe benefits	15,300	17,100	17,703	(603)
Other	4,000	4,000	3,982	18
Total other	31,500	41,780	43,135	(1,355)
TOTAL EXPENDITURES	127,380	169,545	158,580	10,965
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	34,630	(7,735)	4,787	12,522

Village of Galien

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended February 28, 2007

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
OTHER FINANCING USES				
Transfer out	<u>\$ (38,000)</u>	<u>\$ (38,000)</u>	<u>\$ (37,907)</u>	<u>\$ 93</u>
NET CHANGE IN FUND BALANCE	(3,370)	(45,735)	(33,120)	12,615
Fund balance, beginning of year	<u>144,551</u>	<u>144,551</u>	<u>144,551</u>	<u>-0-</u>
Fund balance, end of year	<u><u>\$ 141,181</u></u>	<u><u>\$ 98,816</u></u>	<u><u>\$ 111,431</u></u>	<u><u>\$ 12,615</u></u>

Village of Galien

Major Street Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended February 28, 2007

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Intergovernmental - State				
Gas and weight tax	\$ 37,000	\$ 37,000	\$ 35,907	\$ (1,093)
Interest	1,000	1,000	4,426	3,426
TOTAL REVENUES	38,000	38,000	40,333	2,333
EXPENDITURES				
Public works	25,710	27,630	20,352	7,278
NET CHANGE IN FUND BALANCE	12,290	10,370	19,981	9,611
Fund balance, beginning of year	90,383	90,383	90,383	-0-
Fund balance, end of year	<u>\$ 102,673</u>	<u>\$ 100,753</u>	<u>\$ 110,364</u>	<u>\$ 9,611</u>

Village of Galien

Local Street Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended February 28, 2007

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Intergovernmental - State				
Gas and weight tax	\$ 14,000	\$ 14,000	\$ 13,897	\$ (103)
Grant	100,000	100,000	199,868	99,868
Interest	1,000	1,000	5,896	4,896
Other	-	-	2,539	2,539
TOTAL REVENUES	115,000	115,000	222,200	107,200
EXPENDITURES				
Public works	404,030	416,560	340,419	76,141
EXCESS OF REVENUES (UNDER) EXPENDITURES	(289,030)	(301,560)	(118,219)	183,341
OTHER FINANCING SOURCES				
Transfers in	299,000	299,000	138,907	(160,093)
NET CHANGE IN FUND BALANCE	9,970	(2,560)	20,688	23,248
Fund balance, beginning of year	95,603	95,603	95,603	-0-
Fund balance, end of year	<u>\$ 115,543</u>	<u>\$ 90,483</u>	<u>\$ 116,291</u>	<u>\$ 46,496</u>

Village of Galien

Police Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended February 28, 2007

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Licenses and permits	\$ 700	\$ 700	\$ 707	\$ 7
Interest	150	150	2,047	1,897
Other	500	500	235	(265)
TOTAL REVENUES	1,350	1,350	2,989	1,639
EXPENDITURES				
Public safety	22,115	23,275	19,150	4,125
EXCESS OF REVENUES (UNDER) EXPENDITURES	(20,765)	(21,925)	(16,161)	5,764
OTHER FINANCING SOURCES				
Transfers in	21,000	21,000	21,000	-0-
NET CHANGE IN FUND BALANCE	235	(925)	4,839	5,764
Fund balance, beginning of year	18,469	18,469	18,469	-0-
Fund balance, end of year	<u>\$ 18,704</u>	<u>\$ 17,544</u>	<u>\$ 23,308</u>	<u>\$ 11,528</u>

Village of Galien
Economic Development Fund
BUDGETARY COMPARISON SCHEDULE
Year Ended February 28, 2007

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Interest	\$ 3,800	\$ 3,800	\$ 11,766	\$ 7,966
EXPENDITURES				
Community and economic development	<u>6,000</u>	<u>6,000</u>	<u>2,957</u>	<u>3,043</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(2,200)	(2,200)	8,809	11,009
OTHER FINANCING SOURCES				
Transfers out	<u>(285,000)</u>	<u>(285,000)</u>	<u>(125,000)</u>	<u>160,000</u>
NET CHANGE IN FUND BALANCE	(287,200)	(287,200)	(116,191)	171,009
Fund balance, beginning of year	<u>269,471</u>	<u>269,471</u>	<u>269,471</u>	<u>-0-</u>
Fund balance, end of year	<u>\$ (17,729)</u>	<u>\$ (17,729)</u>	<u>\$ 153,280</u>	<u>\$ 171,009</u>

Principals

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF THE FINANCIAL STATEMENTS**

To the Honorable President and
Members of the Village Council
Village of Galien
Galien, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Galien, as of and for the year ended February 28, 2007, which collectively comprise the Village's basic financial statements, and have issued our report thereon dated August 10, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal controls. We consider the following deficiencies to be significant deficiencies in internal control over financial reporting:

PAYROLL DISBURSEMENTS PROCESS

During our testing of the payroll disbursements process, we noted that the payroll transactions were generally not posted to the general ledger in a timely manner. In some instances where payroll checks were manually prepared at the beginning of the month, the checks cleared the bank that same month, but were not recorded in the general ledger until the subsequent month. There were other instances where the vouchers for payroll disbursements were prepared by the Clerk, but the checks were not prepared by the Treasurer until the subsequent month. This issue was noted and reported in our audit comments last year.

We recommend that all transactions be recorded in the general ledger in a timely manner.

ADDITIONAL ADMINISTRATIVE POLICIES AND PROCEDURES

Based on our discussions with management, we noted that the Village has not formally adopted written procedures and policies for certain areas of operation. Documenting specific policies and procedures allows employees to have a clearer understanding of management's expectations. It also allows management to have greater visibility over those areas for which they are responsible. Specifically, we recommend that the Village develop, formally adopt, and implement written procedures and policies in the following areas:

- a. Disaster recovery plan - We recommend the Village adopt a disaster recovery plan. The plan should identify areas of operation that are critical to the Village and detail how the Village would continue to operate in the absence of those critical areas of operation.
- b. Conflict of interest policy - A conflict of interest policy will clarify the Village's position on ethical behavior and communicate that position to employees and Council members. We recommend the Village develop and implement a policy addressing conflict of interest and include it in the policy manual and periodically require a declaration of compliance from employees and Council members. The Village should also obtain conflict of interest disclosure statements from its employees and Council members.
- c. Capital asset management policy - We recommend that the Council adopt a policy for the acquisition and disposal of capital assets. The policy should specify the dollar threshold to be used for asset capitalization and that the disposal of capital assets requires formal approval by the Village Council. The policy should also indicate estimated useful lives for each major classification of capital assets. Adoption of the capital asset management policy should be documented in the minutes of the Council meetings.
- d. Accounting policies and procedures manual - We recommend the Village formally document any accounting procedures that are currently in place and supplement this with any Council policies that may be required to support those procedures.
- e. Investment policy - During the course of our audit and through discussions with management, it was noted that although the Village currently has an investment policy, the policy has not been amended to address the reporting requirements of GASB Statement No. 40. Effective for the year ended February 28, 2006, GASB Statement No. 40 is designed to inform financial statement users about deposit and investment risks that could affect the Village's ability to provide services and meet its obligations as they become due.

We recommend that management review their current investment policy and make the necessary amendments to address custodial credit risk, concentration of credit risk, interest rate risk, and foreign currency risk, as necessary. Such policies are required by GASB Statement No. 40 to be disclosed in the notes to the Village's financial statements.

The issue of adopting additional administrative policies was noted and reported in our audit comments last year. It is our understanding that draft versions of several administrative policies have been developed and are currently being reviewed by the Village's attorney. We have separated our comments related to a fraud management program to emphasize its importance and those comments are reported below.

FRAUD RISK MANAGEMENT PROGRAM

During the course of our audit, we noted that the Village has not developed or implemented a fraud risk management program. Management is responsible for the detection and prevention of fraud, misappropriations, and other inappropriate conduct. Fraud is defined as the intentional, false representation or concealment of a material fact for the purpose of inducing another to act upon it to his or her injury. Each member of the management team should be familiar with the types of improprieties that might occur within his or her area of responsibility, and be alert for any indication of irregularity. This issue was noted and reported in our audit comments last year.

Due to the Village not developing a fraud risk assessment and monitoring program it is unable to assess the Village's vulnerabilities to fraudulent activity and whether any of those exposures could result in material misstatement of the financial statements.

FRAUD RISK MANAGEMENT PROGRAM - CONTINUED

We recommend that the Village develop and formally implement a fraud risk management program that is appropriate to the size and complexity of the organization. Such a fraud risk management program may involve actively searching for fraudulent transactions through the use of techniques such as data mining, but should also include informing management and employees as to the nature of fraud and actions expected to be taken if fraud is suspected. This would include publishing a definition of fraud, a statement that fraud will not be tolerated within the organization, and instructions for reporting fraud within the chain of command.

COMPUTERIZED GENERAL LEDGER

The Village currently utilizes QuickBooks accounting software to maintain the general ledger, subsidiary ledgers and receipts journals for utility billings and property tax collections, and manually writes checks for accounts payable and payroll disbursements. These manually written checks often are not entered into the general ledger in a timely manner. This issue was noted and reported in our audit comments last year.

While we have noted improvement with the Village's familiarity with QuickBooks accounting software, we recommend that management evaluate the manual processes throughout the Village's operations to determine where additional efficiencies may be gained. The Village may also wish to consider the efficiencies that could be gained by changing to a more sophisticated accounting software package. Accounting software packages are available that would allow the Village to integrate the utility billing activity and property tax collections activity with the general ledger.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We believe the significant deficiencies described below to be material weaknesses.

PREPARATION OF FINANCIAL STATEMENTS

Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). Responsibility for the financial statements of the Village rests with the Village's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal accounting records), and (2) reporting government-wide and fund financial statements, including the related note disclosures (i.e., external financial reporting).

It has historically been common for many small to medium-sized governments to rely on the independent auditors to assist in the preparation of the government-wide and fund financial statements, as well as the related notes to the financial statements, as part of its external financial reporting process. As a result, a government's ability to prepare financial statements in accordance with GAAP has typically been based, in part, on its reliance on the independent auditors. By definition, independent auditors cannot be part of the government's internal controls.

The condition noted in the preceding paragraph exists at the Village of Galien. The cause for this condition is simply because it is more cost effective to outsource the preparation of its annual financial statements to the independent auditors than to incur the time and expense of having the employees and/or management obtain the necessary training and expertise required to perform this task internally.

As a result of this condition, the employees and/or management do not possess the qualifications necessary to prepare the Village's annual financial statements and notes to the financial statements in accordance with GAAP. The Village relies, in part, on the independent auditors for assistance with the preparation of annual financial statements and related notes to the financial statements in accordance with GAAP.

We recommend the Village consider obtaining the proper training for the appropriate staff members to assure that they are able to fully understand what goes into the preparation of the annual audited financial statements and so that they can take responsibility for the preparation of the annual audited financial statements, assure there are no material misstatements, and assure there are appropriate disclosures in accordance with accounting principles generally accepted in the United States of America.

MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS

Material journal entries for the proper recognition of accrual accounting were proposed by the auditors. These misstatements were not detected by the Village's internal control over financial reporting. Statement on Auditing Standards No. 112 (SAS 112), *Communicating Internal Control Related Matters Identified in an Audit*, emphasizes that management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements, including the notes to financial statements, in conformity with U.S. generally accepted accounting principles. The auditor cannot be a part of internal controls.

We recommend that the Village take steps to ensure that material journal entries are not necessary for the financial statements to be fairly presented prior to the commencement of audit fieldwork.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed the following instance of noncompliance.

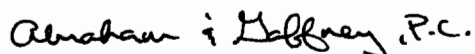
BUDGETS

As noted in the financial statements, some of the activities of the Village exceeded the amounts appropriated. The variances noted were in the General Fund. In addition, it was noted that the Village budgeted for the Economic Development (Special Revenue) Fund to end the year in a deficit financial position.

Michigan Public Act 621 of 1978, as amended, provides that the Village adopt formal budgets for all applicable General and Special Revenue Funds, and shall not incur expenditures in excess of the amounts appropriated. Also, the Public Act requires amendments to be performed prior to incurring additional expenditures. The Act also prohibits the Village from appropriating more funds for expenditure than is available through current revenue sources and any accrued surplus or deficit from previous years.

We recommend the Village monitor expenditures against adopted budgets and make appropriate budget amendments as needed.

This report is intended solely for the information and use of management, the members of the Board of the Village of Galien, and others within the Village and is not intended to be and should not be used by anyone other than these specified parties.



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

August 10, 2007